

The IRS, Taxes, and You

The only certainties in life are death and taxes, only one of them has to be painful.

Refund anticipation loans, free tax help, tax scams, there are plenty of things to watch out for this tax season



It's tax time again, but before you start rifling through W-2 forms and wondering where you stashed those receipts, make sure you're current with tax information.

And that doesn't mean just

understanding the newest changes in the tax code.

Inside this newsletter you'll find useful information on everything from refund anticipation loans to tax scams to how to choose a tax preparer.

Mostly, however, we want you to be smart about your taxes.

While the best part of tax season is, of course, the refund, trying to speed up the process through a refund anticipation loan (RALs) is a bad idea. Refund Anticipation Loans, often referred to as "Fast Cash Refunds," "Express Money," or "Instant Refunds," are short-term loans that for a fee give you an advance on your expected tax refund.

When your tax refund does come, you must repay your loan with the refund. If you do not receive as much as you were expecting, you still owe the difference on your loan and any added interest.

Why hurry for a lot of worry? If you wait and e-file with the IRS you will receive your tax refund just seven to 10 days later, sometimes even sooner, than if you pay to borrow your own money with a refund anticipation loan.

If you need your money that quickly, be sure to check into the volunteer income tax

assistance (VITA) program which provides individuals and families free tax preparation, even e-filing their claims for them to expedite the process.

VITA operatives are also encouraged to seek an earned income tax credit for filers who meet the qualifications. This could mean a lot more money for you!

Unfortunately, there are also a whole bunch of new tax scams circulating in 2008 and a few old ones that simply will not go away.

Many of these new scams involve unsolicited e-mails that try to gain personal information from you that can be used to empty bank accounts, set up credit cards, and generally wreak financial carnage.

The IRS stresses that they will never send e-mails without your request or ask for you to provide them with personal information through e-mail. If you receive an e-mail claiming to be from the IRS and asking for personal information, it's a scam!

Furthermore, you should never click on links within e-mails claiming to be from the IRS rather call 1.800.829.1040 to confirm the validity of the e-mail.

Ultimately, it's important to stay on top of your taxes because you are responsible for your taxes.

Even if you pay a tax preparer to do your taxes for you, the information in your tax file is your responsibility, so don't let an unscrupulous tax preparer lead you down the wrong path.

Remember, you will be the one held responsible. The information inside this newsletter will expand on these topics, as well as others, so this tax season will be as painless as possible.

Keep in mind your refund is just a few days away.

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Want more money?

Avoid using refund anticipation loans for tax returns

How would you like to pay a super-high price to borrow money that already belongs to you?

Sounds ridiculous, right?

But that's pretty much what happens to many folks at tax time in the crazy world of refund anticipation loans (RALs).

You may be tempted by tax-time advertisements for "Fast Cash Refunds," "Express Money," or "Instant Refunds."

These ads will offer to get you your refund in just a day or two, or even on the spot. Beware! Many of these "fast refunds" are really LOANS, refund anticipation loans that are based on your tax refund money.

When you get a RAL, you're borrowing against your tax refund money and it's not cheap. Loan fees typically range from \$30 to \$90, which translates into annual percentage rates from 60% to over 700%.

If you paid those rates on all your borrowing, you'd probably go broke!

RAL fees, combined with tax preparation, electronic filing, and other fees can eat away a big chunk of your refund.

In addition to their high costs, RALs can be risky. Since a RAL is a loan from a bank in partnership with a tax preparer, it must be repaid even if the IRS denies or delays your refund or if your refund is smaller than expected.

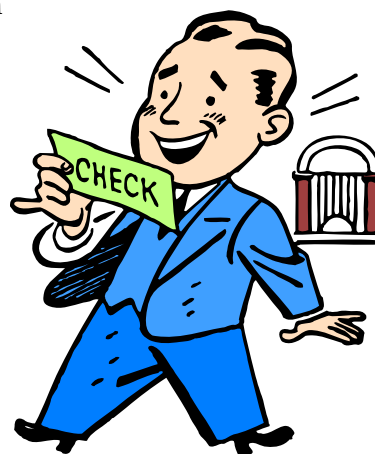
If you don't pay back the RAL, the lender can take actions to hurt your credit rating and may send your account to a debt collector.

In addition, when you apply for a RAL, you are giving the lender the right to grab your tax refund to pay for old tax loan debts that the lender claims you owe.

All this to get your tax refund just a few days earlier than you can for free from the IRS.

Essentially you're lining someone else's pockets with YOUR hard-earned money.

Worse, RALs are often marketed to people who need money the most – low- and moderate-income workers who receive the Earned Income Tax Credit.



Refund Anticipation Loans only get your money to you seven to 14 days faster than e-filing with your tax preparer but can cost you hundreds of dollars.

Ways to avoid RALs and save at tax time:

- E-File with Direct Deposit – File your tax return electronically (E-File) to speed up your refund. Tell the IRS to deposit the refund directly into your bank account.

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VITA program offers free tax help for those who need it

Puzzled by the tax law or which credits and deductions to take? Need assistance with your tax return?

You may want to visit a volunteer site. The IRS Volunteer Income Tax Assistance (VITA) Program or the Tax Counseling for the Elderly (TCE) Program offer free tax help if you qualify.

Trained community volunteers can help you with special credits, such as Earned Income Tax Credit (EITC), Child Tax Credit, and Credit for the Elderly for which you may qualify. In addition to free tax return preparation assistance, most sites also offer free electronic filing (e-filing).

Individuals taking advantage of

the e-file program will receive their refunds in half the time compared to returns filed on paper – even faster if you have your refund deposited directly into your bank account.

Volunteer Income Tax Assistance Program (VITA)

The VITA Program offers free tax help to low- and moderate-income (generally, \$40,000 and below) people who cannot prepare their tax returns.

Certified volunteers sponsored by various organizations receive training to help prepare basic tax returns in communities across the country.

VITA sites are usually located at community and neighborhood

centers, libraries, schools, shopping malls, and other convenient locations. Most locations also offer free electronic filing.

To locate the nearest VITA site, call 1.800.829.1040.

Free Tax Counseling for the Elderly (TCE)

The Tax Counseling for the Elderly (TCE) Program provides free tax help to people age 60 and older. Trained volunteers from non-profit organizations provide free tax counseling and basic income tax return preparation for senior citizens.

Digitized by South Carolina State Library **Continued on Page Six**

Don't fall for these tax scams that get you nothing but trouble for a return

Tax time is just around the corner and the South Carolina Department of Consumer Affairs and the IRS are urging you to please avoid these 12 popular tax scams. The IRS warns that no matter who prepares the return, the taxpayer is ultimately responsible for its accuracy.

Zero Wages

In this relatively new scam a taxpayer attaches to his or her return either a Form 4852 (Substitute Form W-2) or a "corrected" Form 1099 that shows zero or little wages or other income. The taxpayer may include a statement indicating the taxpayer is rebutting information submitted to the IRS by the payer. The Form 4852 or 1099 is usually attached to a "Zero Return."

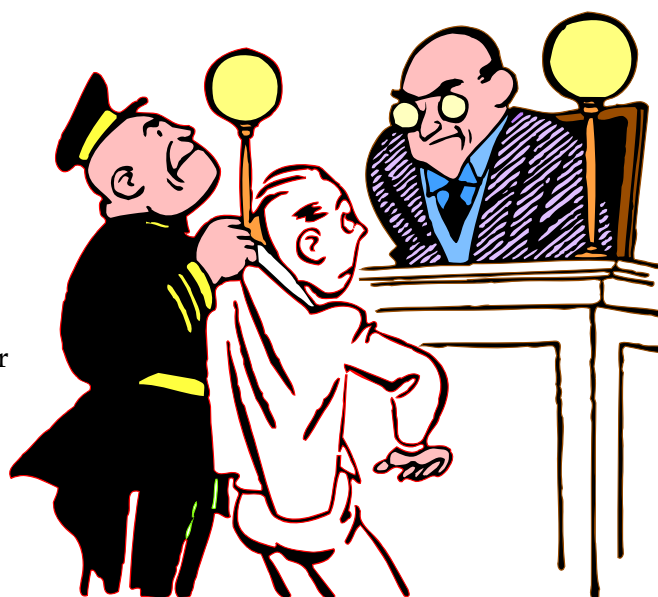
Zero Return

Promoters instruct taxpayers to enter all zeros on their federal income tax filings. In a twist on this scheme, filers enter zero income, report their withholdings and then write "nunc pro tunc" - Latin for "now for then" - on the return.

They also do this with amended returns in the hope the IRS will disregard the original return in which they reported wages and other income.

Form 843 Tax Abatement

This scam is fairly new and rests on a faulty interpretation of the Internal Revenue Code. It involves the filer requesting abatement of



"I'm sorry your Honor. I thought the 16th Amendment was never ratified, wages weren't income, and that paying taxes was voluntary anyway."

previously assessed tax using Form 843.

Many using this scam have not previously filed tax returns, and the tax they are trying to have abated has been assessed by the IRS through the Substitute for Return Program.

Phishing

This is a technique used by identity thieves to acquire personal financial data in order to gain access to the financial accounts of unsuspecting consumers, run up charges on their credit cards or apply for new loans in their names.

These Internet-based criminals pose as representatives of a financial institution and send out fictitious e-mails in an attempt to trick consumers into disclosing private information.

These scammers even pose as the IRS. Taxpayers should take note: **The IRS does not use e-mail to initiate contact with taxpayers about issues related to their accounts.**

If a taxpayer has any doubt

whether a contact from the IRS is authentic, the taxpayer should call 1.800.829.1040 to confirm it.

Trust Misuse

For years, unscrupulous promoters have urged taxpayers to transfer assets into trusts.

They promise reduction of income subject to tax, deductions for personal expenses and reduced estate or gift taxes.

However, some trusts do not deliver the promised tax benefits, and the IRS is actively examining these arrangements.

Frivolous Arguments

Promoters have been known to make the following outlandish claims: the Sixteenth Amendment concerning congressional power to lay and collect income taxes was never ratified; wages are not income; filing a return and paying taxes are merely voluntary; and being required to file Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy.

Don't believe these or other similar claims. These arguments are false and have been thrown out of court.

Return Preparer Fraud

Dishonest tax return preparers can cause many headaches for taxpayers who fall victim to their schemes.

Such preparers derive financial gain by skimming a portion of their clients' refunds and charging inflated fees for return preparation services.

They attract new clients by promising large refunds. Taxpayers should choose carefully when hiring a tax preparer.

E-snare! IRS warns most new scams are through e-mail

"Everyone should beware of these scam artists," said Kevin M. Brown, Acting IRS Commissioner.

"Always exercise caution when you receive unsolicited e-mails or e-mails from senders you don't know."

Recipients of questionable e-mails claiming to come from the IRS should not open any attachments or click on any links contained in the e-mails.

Instead, they should forward the e-mails to phishing@irs.gov.

Since the establishment of the mailbox last year, the IRS has received more than 17,700 e-mails from taxpayers reporting more than 240 separate phishing incidents. To date, investigations have identified host sites in at least 27 different countries as well as in the United States.

The following is the freshest batch of tax scams the IRS warns taxpayers to be on the lookout for. The date in bold is when the IRS first became aware of the scam.

Jan. 14, 2008 — A new variation of the refund scheme may be directed toward organizations that distribute funds to other organizations or individuals. In an attempt to seem legitimate, the scam e-mail claims to be sent by, and contains the name and supposed signature of, the Director of the IRS Exempt Organizations area of the IRS. The e-mail asks recipients to click on a link to access a form for a tax refund. In reality, taxpayers claim their tax refunds through the filing of an annual tax return, not a separate application form.

Nov. 7, 2007 — In a variation, an e-mail scam claims to come from the IRS and the Taxpayer Advocate



Theives these days don't use a crowbar to steal your money; they simply log onto the Internet. Never give out any personal information through e-mail.

Service (a genuine and independent organization within the IRS whose employees assist taxpayers with unresolved tax problems).

The e-mail says that the recipient is eligible for a tax refund and directs the recipient

to click on a link that leads to a fake IRS website. The IRS recommends that recipients do not click on links in, or open any attachments to, e-mails they receive that are unsolicited or that come from unknown sources.

Nov. 2, 2007 — A new scam e-mail that appears to be a solicitation from the IRS and the U.S. government for charitable contributions to victims of the recent Southern California wildfires has been making the rounds. A link in the e-mail, when clicked, sends the e-mail recipients to a website that looks like the IRS website, but isn't. They are then directed to click on a link that opens a donation form that asks for personal and financial information. The scammers can use

that information to gain access to the e-mail recipients' financial accounts. The IRS does not send e-mails to taxpayers soliciting contributions to a charitable cause.

Sept. 19, 2007 — Another recent e-mail scam tells taxpayers that the IRS has calculated their "fiscal activity" and that they are eligible to receive a tax refund of a certain amount. Taxpayers receive a page of, or are sent to, a website (titled "Get Your Tax Refund!") that copies the appearance of the genuine "Where's My Refund?" interactive page on the genuine IRS website. Like the real "Where's My Refund?" page, taxpayers are asked to enter their SSNs and filing status. However, the phony webpage asks taxpayers to enter their credit card account

numbers instead of the exact amount of refund as shown on their tax return, as the real "Where's My Refund?" page does. Moreover, the IRS does not

send e-mails to taxpayers to advise them of refunds or to request financial information.

Aug. 24, 2007 — The Internal Revenue Service today warned taxpayers of a new phishing scam in which an e-mail purporting to come from the IRS advises taxpayers they can receive \$80 by filling out an online customer satisfaction survey. The IRS urges taxpayers to ignore this solicitation and not provide any requested information. The IRS does not initiate contact with taxpayers through e-mail.

June 19, 2007 — In another recent scam, consumers have received a "Tax Avoidance Investigation" e-mail claiming to come from the IRS'

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The IRS never sends unsolicited e-mail to taxpayers. NEVER!
.....

Their work, your responsibility: Choose a tax preparer wisely

If you pay someone to prepare your tax return, choose that preparer wisely.

Taxpayers are legally responsible for what's on their tax returns even if prepared by someone else. So, it is important to choose carefully when hiring an individual or firm to prepare personal returns.



Photo courtesy of naptaxes.com

Most return preparers are professional, honest and provide excellent service to their clients.

Here are a few points to keep in mind when someone else prepares your return:

➔ A paid preparer is required by law to sign the return and fill in the preparer areas of the form. The preparer should also include their appropriate identifying number on the return. Although the Preparer signs the return, you are responsible for the accuracy of every item on your return. In addition, the preparer must give you a copy of the return.

➔ Review the completed return to ensure all tax information, your name, address and social security number are correct. Make sure that none of these spaces are left blank.

➔ Review the entries and make sure you are comfortable with the accuracy of the return before you sign.

➔ Never sign a blank return, and never sign in pencil.

➔ If you have provided specific authorization in a power of attorney filed with the IRS, you may have copies of notices or refund checks mailed to your preparer or

representative, but only you can sign and cash your refund check.

➔ A Third Party Authorization Check Box on Form 1040 allows you to designate your paid preparer to speak to the IRS concerning how your return was prepared, payment and refund issues and mathematical errors.

➔ It's important for taxpayers to find qualified tax professionals if they need help preparing and filing their tax returns.

Unqualified tax preparers may overlook legitimate deductions or credits that could cause clients to pay more tax than they should.

Unqualified preparers may also make costly mistakes causing their clients

Remember you are ultimately responsible for your taxes, not your tax preparer.

to incur assessed deficiencies, penalties, and interest.

➔ Here are some suggestions to consider when hiring a tax professional:

➔ A paid preparer must sign the return as required by law.

➔ Avoid preparers who claim they can obtain larger refunds than other preparers. If your returns are prepared correctly, every preparer should derive substantially similar numbers.

➔ Beware of a preparer who guarantees results or who bases fees on a percentage of the amount of the refund. A practitioner may not charge a contingent fee (percentage of your refund) for preparing an original tax return.

➔ Understand that the most reputable preparers will request to see your receipts and will ask you multiple questions to determine your qualifications for expenses, deductions and other items. By doing so they have your best interest in mind and are trying to help you avoid penalties, interest or additional taxes that could result from an IRS examination.

➔ Choose a preparer you will be able to contact and one who will be responsive to your needs.

➔ Ask who will actually prepare the return before engaging services.

➔ Avoid firms where your work may be delegated down to someone with less training or some unknown worker. You should know exactly who works with your tax matters at all times and how to contact him or her; after all, you are paying for it.

➔ Investigate whether the preparer has any questionable history with the Better Business Bureau, the state's board of accountancy for CPAs, the state's bar association for attorneys or the IRS

Office of Professional Responsibility (OPR) for enrolled agents or the oversight agency in states that license or register tax preparers.

➔ Determine if the preparer's credentials meet your needs or if your state mandates licensing or registration requirements for paid preparers.

Is he or she an Enrolled Agent, Certified Public Accountant (CPA) or Tax Attorney? Only attorneys, CPAs and enrolled agents can represent taxpayers before the IRS in all matters including audits, collection actions and appeals.

➔ Check IRS.gov for information regarding abusive shelters and other tax schemes and

CONTINUED from Page 2: VITA program offers free tax help for those who need it

Volunteers who provide tax counseling are often retired individuals associated with non-profit organizations that receive grants from the IRS.

As part of the IRS-sponsored TCE Program, AARP offers the Tax-Aide counseling program at more than 7,000 sites nationwide during the filing season.

Trained and certified AARP Tax-Aide volunteer counselors help people of low-to-middle income with special attention to those age 60 and older.

Military personnel and their families get free tax help!

The military also has a strong Volunteer Income Tax Assistance (VITA) Program. The Armed Forces Tax Council (AFTC) consists of the tax program coordinators for the Army, Air Force, Navy, Marine Corps, and Coast Guard.

The AFTC oversees the operation of the military tax programs worldwide and serves as the main conduit for outreach by the IRS to military personnel and their families.

Marines, airmen, soldiers, sailors, guardsmen, and their families worldwide receive free tax preparation assistance at offices in their installations.

These VITA sites provide free tax advice, tax preparation, and assistance to military members and their families. They are trained and equipped to address military specific tax issues, such as combat zone tax benefits and the effect of the new Earned Income Tax Credit (EITC) guidelines. The military tax programs generated over 287,644 electronic 2006 federal income tax returns.

Commanders support the program by detailing service members to prepare returns and by providing space and equipment for tax centers. The IRS supports these efforts by providing tax software and by training service members to prepare taxes at the military sites. Most service members file their tax returns electronically at tax centers and, by selecting direct deposit, receive their refunds in as little as one week.

This combined effort ensures that service members receive free tax assistance from well-trained and equipped military tax preparers.

Items you need to bring to the VITA/TCE Sites to have your tax returns prepared:

- ✓ Proof of identification
- ✓ Social security cards for you, your spouse and dependents and/or a social security number verification letter issued by the Social Security Administration.

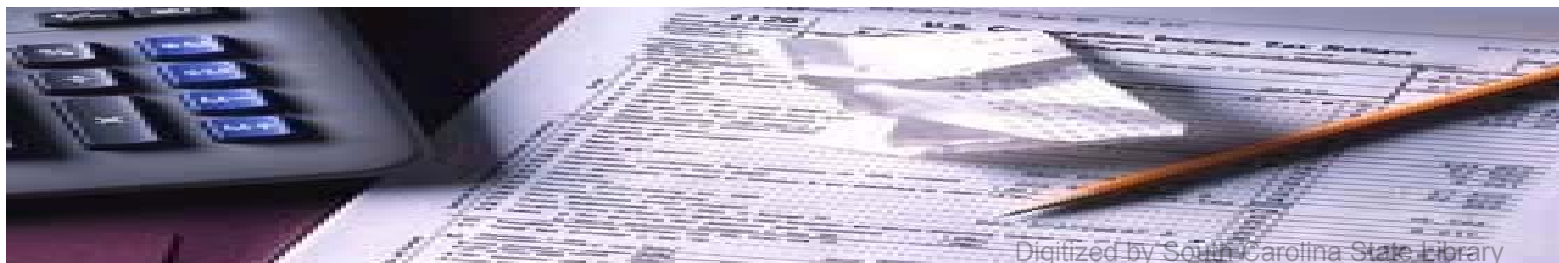
- ✓ Birth dates for you, your spouse and dependents on the tax return
- ✓ Current year's tax package if you received one
- ✓ Wage and earning statement(s) form W-2, W-2G, 1099-R, from all employers
- ✓ Interest and dividend statements from banks (Forms 1099)
- ✓ A copy of last year's federal and state returns if available
- ✓ Bank routing numbers and account numbers for direct deposit
- ✓ Total paid for day care provider and the day care provider's tax identifying number (the provider's social security number or the provider's business Employer Identification Number)
- ✓ To file taxes electronically on a married filing joint tax return, both spouses must be present to sign the required forms.

It is extremely important that each person use the correct social security number (SSN).

The most accurate information is usually located on your original Social Security card.

Each year hundreds of thousands of returns are delayed in processing, or credit/deductions are disallowed because names and social security numbers do not match social security administration records.

To prevent processing delays in paper returns and rejected electronically filed returns, volunteers check the accuracy of each social security number, as well as the spelling of the name associated with the number.



CONTINUED from Page 3: Don't fall for these tax scams...**Credit Counseling Agencies**

Taxpayers should be careful with credit counseling organizations that claim they can fix credit ratings, push debt payment plans, or impose high set-up fees or monthly service charges that may add to existing debt.

If a taxpayer plans to hire a credit counseling agency, they should contact SCDCA to make sure the business is licensed.

Abuse of Charitable Organizations and Deductions

The IRS has observed increased use of tax-exempt organizations to improperly shield income or assets from taxation. This can occur, for example, when a taxpayer moves assets or income to a tax-exempt supporting organization or donor-advised fund but maintains control

over the assets or income, thereby obtaining a tax deduction without transferring a commensurate benefit to charity.

Offshore Transactions

Despite a crackdown by the IRS and state tax agencies, individuals continue to try to avoid U.S. taxes by illegally hiding income in offshore bank and brokerage accounts or using offshore credit cards, wire transfers, foreign trusts, employee leasing schemes, private annuities or life insurance to do so.

Employment Tax Evasion

The IRS has seen a number of illegal schemes that instruct employers not to withhold federal income tax from wages paid to employees.

CONTINUED from Page 2: Avoid using refund anticipation loans...

If you have Internet access, you may be able to get free tax preparation and electronic filing at www.icanefile.org.

- Wait just a bit longer – Do you really have to get cash from your tax refund today? Can you wait a few weeks to save almost \$100?

If you have an urgent bill to pay, ask for more time until the tax refund check comes from the IRS. Don't take on a new expensive debt to pay an old bill.

- Avoid check cashers – Check cashers charge an extra fee to cash RAL and tax refund checks.

Some check cashers charge up to 7% to cash a RAL check – the average is about 3%. If you receive a \$2,000 refund it would cost you an average of \$60 to cash the RAL check on top of the RAL and tax preparation fees. A smarter move is to use a bank account.

CONTINUED from Page 4: E-snare! IRS warns most new scams are through...

"Fraud Department" in which the recipient is asked to complete an "investigation form," for which there is a link contained in the e-mail, because of possible fraud that the recipient committed. It is believed that clicking on the link may activate a Trojan horse.

May 31, 2007 – An e-mail purporting to be from IRS Criminal Investigation falsely states that the person is under a criminal probe for submitting a false tax return to the California Franchise Tax Board.

The e-mail seeks to entice people to click on a link or open an attachment to learn more information about the complaint against them.

The IRS warns people that the e-mail link and attachment is a Trojan horse that can take over the person's computer hard drive and allow

CONTINUED from Page 5: Tips for choosing a tax preparer

scams. Remember, if it sounds too good to be true, chances are it is.

The IRS can help many taxpayers prepare their own returns without the assistance of a paid preparer. Before seeking a paid preparer, taxpayers might consider how much information is available directly from the IRS through the IRS website.

Check out these helpful links:

[E-file for Individual Taxpayers](http://www.irs.gov/efile/article/0,,id=118508,00.html)

<http://www.irs.gov/efile/article/0,,id=118508,00.html>

[Free File](http://www.irs.gov/efile/article/0,,id=118986,00.html)

<http://www.irs.gov/efile/article/0,,id=118986,00.html>

[Free Tax Return Preparation](http://www.irs.gov/individuals/article/0,,id=107626,00.html)

<http://www.irs.gov/individuals/article/0,,id=107626,00.html>

Unfortunately, unscrupulous tax return preparers do exist and can cause considerable financial and legal problems for their clients.

Examples of improper actions by unscrupulous preparers include the preparation and filing of false paper or electronic income tax returns that claim inflated personal or business expenses, false deductions, unallowable credits or excessive exemptions.

Remember, no matter who prepares a tax return, the taxpayer is legally responsible for all of the information on that tax return.

Report suspected tax fraud and abusive return preparers by completing [Form 3949-A](http://www.irs.gov/efile/article/0,,id=118508,00.html) and mailing it or a letter with similar information to: Internal Revenue Service Fresno, CA 93888